Labour Economic Policy Proposal

(Draft, a work in progress as at 27 October 2016)

Vision

[i] A democratically managed economy, incorporating an innovative and substantial private sector, in which public rather than private interests determine priorities for investment in socially useful industry and services.

[ii] An economy that prioritises full employment at a living wage with worker participation in management and labour market safeguards against exploitation of migrants.

[iii] A sustainable Green economy, pollution free and self sufficient in renewable energy, increasing productivity based on science and technology.

[iv] An economy which reverses the trend to 'financialisation', manages capital flows, and refocuses 'growth' on meeting social needs and improving the quality of life.

Credit, money supply and investment:

[i] The Vickers report, that recommended the separation of commercial and investment banking following the crash of 2008, should be implemented in full, i.e. the banks should be restructured into separate entities with

- Commercial banks for cash accounts, payments, retail and commercial credit and time deposits (these banks would ultimately have the backing of the state, so would be constrained in their lending).
- Investment banks for proprietary trading, underwriting the raising of capital etc. (they would not have the ultimate backing of the state and would be allowed to fail, they would not be allowed to carry out any vital financial infrastructure function).

[ii] The Bank of England would set limits on money (credit) creation by the commercial banks using any appropriate mechanisms such as capital requirements or it's own interest rates. The Bank of England would thus limit speculation in property, both domestic and commercial, to restrict housing bubbles and control levels of personal debt. Indirect measures to stimulate credit creation, such as quantitative easing in its present form, would be unnecessary.

[iii] A new National Investment Bank (NIB) would be key to both investment and the management of the money supply. The NIB would borrow to invest but it would also be funded through a form of 'people's quantitative easing (QE)' with funds credited at the Bank of England in return for NIB bonds. The capital acquired would be invested in research and development as well as infrastructure projects (energy efficient housing, renewable energy, sustainable transport, technology research) rather than for buying assets via the banks in the hope that new investment will result as with existing QE by the Bank of England. Working with other agencies responsible for developing and implementing an industrial strategy, the NIB would have an overview of investment across the economy as a whole and recommend to government measures for mobilizing idle capital in the private sector, diverting such capital from speculative investments with a combination of direct controls and incentives.. We say more about this under the heading 'corporate governance.

[iv] The NIB will lend to local authorities for municipal housing, schools and local infrastructure, and will be a source of loans for a wide variety of enterprises. As a provider of loans for investment the NIB creates 'credit' in exactly the same way as a commercial bank making loans. It might also encourage credit unions and support small businesses.

[v] Because the NIB will play such a significant role in investment and the provision of loans, in the volume of credit and money supply in the economy, good governance will be critical. We do not go into detail here but democratic accountability must incorporate safeguards against government taking unacceptable risks as well as ensuring that the NIB does not become a vehicle for special interests.

[vi] In the new market economy that emerges, the state will be responsible for determining the aggregate level of resources available for investment, ensuring the quality (social usefulness) of that investment, and the broad basis of returns to owners of capital (Minsky, 2008).

[vii] A key target of national investment should be to improve the balance of trade, particularly to replace fossil fuel imports with sustainable domestic energy and to reduce dependency on the fickle profits of the City of London

Tax

[i] Implement key recommendations on tax (Richard Murphy, 2015) but most importantly :

[ii] Change the legal basis of UK law on taxation to simplify taxation and defeat tax avoidance (this would oblige compliance with the stated intention of a tax law and make redundant the industry of tax loop hole identification. Essentially potential tax avoiders would need to establish that they were acting with the spirit of the law rather than HMRC needing to demonstrate that they should pay. (see note 1)

[iii] HMRC should be given the staffing and political support to collect all due taxes fairly and promptly.

[iv] Close the UK administered secrecy jurisdictions (Tax Havens). Put their banking activities under the same regulatory regime as for UK based banks.

[v] Tax property purchases by non residents to discourage speculative property buying and housing bubbles.

[vi] Restrict tax breaks for charities and divert the money to more efficient direct provision of social services by the state..

[vii] Overhaul company tax law to remove current distortions and disincentives and to facilitate investment and job creation. (For example, see Adam Marshall of the British Chambers of Commerce, in the JMcD conference, on small companies. See also Richard Murphy, especially on the disincentive effect of National Insurance on small companies).

[viii] Rationalise corporation tax. This is best done as a Europe wide project. Remove the ability of internationally based companies to arbitrage corporation tax across countries, for instance by levying corporation tax based on turnover in a given country rather than declared profits.

[ix] Implement a Financial Transaction tax (Tobin tax) in line with the EU.

[x] In principle wealth should be taxed as well as income. Similarly, there should be a land tax, either as an integral element of wealth taxes, or implemented separately as an alternative tax base

for local authorities (see a paper from Compass (http://www.compassonline.org.uk/). Wealth and/or land taxes would require more detailed consideration than is appropriate here.

Industry and Infrastructure

[i] A feature of modern production is the ever changing nature of the technology of production and changing social needs which requires policies such as

- Enable the mobility of labour within skills and industries.
- A national education service to support workers throughout their lives in re-training and re-skilling..
- Increase the state pension to a living amount so that workers are not penalised for changing jobs. See note 2

[ii] Create a national strategy for British industry. Britain needs to be exporting high-tech, innovative products to the world. A strategy would identify where we can compete and where we cannot and define those industries that are essential to national development (for example, whether we need a steel industry or not should not have to be decided on the wing, under duress).

[iii] Bring into public ownership those industries that are a natural monopoly, such as rail and water, and where the segmentation of privatisation is inefficient and puts a cost burden on society, as well as those that provide goods or services that must be universal because they are fundamental to life and must be fairly available to every citizen (see Hutton).

[iv] The state should also acquire a stake in other key industries linked to its role in funding research and development which it should do both independently and collaboratively with companies sharing costs and pooling results. When state funded research is successfully exploited by the private sector there should be a mechanism to return a portion of the profits to the State. No publicly funded technology can be subsequently patented by the private sector. (Mazzucato, 2013).

[v] An industrial strategy will extend state controls to bring about a more efficient as well as a more democratic economy. At the same time the state should do everything it can to encourage small businesses, co-operatives and new start-ups, and nurture innovation, creativeness and the entrepreneurial spirit. There is no inevitable clash between individual and collective interests.

[vi] Social investment in the regions. Use a range of measures including subsidies or tax incentives to encourage capital to move to where the workers are rather than creating the disruption of housing, education etc. provision by internal migration for work and ensure the social investment to make these place attractive for people to live and work.

[vii] Invest in roads and railways, ports and airports where these provide a commercial or social benefit.

[viii] Invest in digital infrastructure, e.g. a super-fast broadband network. Businesses simply cannot expand, particularly in rural areas, without improvements to our digital economy. (This was stressed by Adam Marshall at the JMcD conference)

[ix] Current research suggests that up to half of all employment is at 'high risk' of being automated as a result of new technology. The question whether new technology creates more jobs than it destroys is a long running one but the threat to employment needs to be taken seriously and any industrial strategy should address it.

Company Law and Governance

[i] In a democratically managed economy all companies, private and public, will have to accept that they have responsibilities to employees and the wider society as well as shareholders and investors. We would

support a number of measures proposed by Will Hutton in *How Good We Could Be* including [i] a new companies act requiring companies to ‘incorporate to deliver particular goods and services that serve a societal or economic need’ and to include in their annual report an account of their stewardship of resources including investment, and environmental impact; [ii] the government will ‘frame the terms’ under which shares can be held and takeovers approved; [iii] the beneficial (actual) owners must be properly identified; [iv] ‘mutual company’ status will be protected as ‘an irrevocable choice’ and a similar commitment made to limit the ability of governments to privatise publicly owned enterprises.

[ii] Changes in company law and governance should include measures to ensure worker representation on company boards, and to limit the ability of company directors to pay themselves absurdly high salaries. This warrants further research but a possibility is through state or union appointed executive directors..

[iii] Working with the NIB and other agencies government will also ‘frame the terms’ within which companies make investment decisions to discourage some choices and encourage others. For example government would prevent companies from buying back their own shares in order to drive up share prices, reward long-term shareholding and limit the ability of company directors to pay themselves absurdly high salaries. This warrants further research but a possibility is through state or union appointed executive directors.

[iv] Extend the principle of “polluter pays” where ever appropriate so that the public purse does not pay for the debris of private gain.

Notes

Note 1

One of Richard Murphy's points that I do think is worth mentioning is the basis of tax in UK law. This all originates from a judgement by Lord Cairns in 1869 which effectively meant that ".. that every "i" must be dotted and every "t" crossed or there is no hope of recovering tax in the UK." This legal judgement is the basis for all the growing legal detail that is the foundation of the tax avoidance industry. RM proposes a change to tax law that obliges conformance with the stated spirit of a tax law. I.e. you can't get out of it by some refined legal quibble.

Note 2

Britain's 'forgotten army' of self-employed workers are heading for old-age poverty in their droves, according to a report headed by Steve Webb (former Lib Dem pensions minister). There are around 4.4million self-employed individuals in the workplace - making up one in seven of the working population.

References

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Mazzucato, Mariana (2013), ‘The Entrepreneurial State’
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Corbyn speech to BCC March 2016
http://press.labour.org.uk/post/140383112424/decision-time-new-politics-new-economy-new

Corbyn Bloomberg speech Sept 2016
http://www.leftfutures.org/wp-content/uploads/2016/09/CorbynBloombergSpeechSept2016.pdf